

CRS Report for Congress

NATO Common Funds Burdensharing: Background and Current Issues

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NATO Common Funds Burdensharing: Background and Current Issues

Summary

Member states of the North Atlantic Treaty Organization (NATO) contribute to the activities of the alliance in several ways, the chief of which is through the deployment of their own armed forces, funded by their national budgets. Certain commonly conducted activities, however, are paid for out of three NATO-run budgets. These three accounts — the civil budget, the military budget, and the security investment program — are funded by individual contributions from the member states. The countries' percentage shares of the common funds are negotiated among the members, and are based upon per capita GDP and several other factors. The aggregate U.S. share, which has fallen over the past three decades, was 25.8% in 2005. Ten central and eastern European nations were admitted into the alliance in 1999 and 2004, and several other countries would also like to join. As NATO expands, it has incurred certain additional costs to accommodate the new members. These costs are being shared by all, including the new countries. In 2005, members of the alliance adopted new burdensharing arrangements; the U.S. level, however, was limited to its current share. Additional changes in the cost share formulas are under review. The second session of the 110th Congress will likely review U.S. contributions to the NATO budgets in the context of the Defense and State Departments' appropriations. This report will be updated as events warrant.

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NATO Common Funds Burdensharing: Background and Current Issues

Introduction

Members of the North Atlantic Treaty Organization (NATO) contribute to the alliance in various ways. The most significant means by far is through funding, in their national defense budgets, the deployment of their respective armed forces in support of NATO missions. Over the past decade, as the alliance has undertaken enlargement, current member countries have been providing bilateral assistance to prospective future members. Defense analysts point out that the NATO allies also contribute to mutual security in many other ways.¹

Several NATO activities, however, are coordinated and conducted by the alliance's headquarters in Brussels. These operations are directly funded by three common accounts: the NATO Military Budget, the NATO Civil Budget, and the NATO Security Investment Program (NSIP). The funds are maintained by direct contributions from NATO's member states. Individual shares of the civil and military budgets remained unchanged for decades, while NSIP shares were adjusted every few years based upon gross relative domestic product (GDP), per capita GDP, and several other factors. In 2005, members negotiated new burdensharing arrangements for all three funds — for all countries except the United States.

Twice a year, ministers of NATO member countries provide guidance on general use of NATO resources. But the actual management of the accounts is conducted by various separate committees. As their names imply, the three funds are responsible for separate but often complementary activities.

NATO Civil Budget

The NATO civil budget supports the alliance's Brussels headquarters and its international civilian staff, which is responsible for policy planning of operations and

¹ Funding levels for deployment are difficult to assess and compare, as they can be calculated in different ways. See CRS Report 95-726, *Defense Budget: Alternative Measures of Costs of Military Commitments Abroad*, by Stephen Daggett and Kathleen H. Hicks, June 16, 1995. The Pentagon has emphasized that allies make contributions to mutual security in a number of ways. See U.S. Department of Defense, *Report on Allied Contributions to the Common Defense*. A Report to the United States Congress by the Secretary of Defense. July 2003. Washington, D.C. The Defense Department ceased publication of this annual report after 2004.

capabilities, liaison with non-alliance partner countries, and public diplomacy.² NATO's international staff is headed by the Secretary General's office, and consists of civilian employees of member countries, often provided to NATO on 3-4 year details. Among other activities, this staff supports the work of the North Atlantic Council (the governing body of the alliance) and its more than two-dozen committees.

The civil budget covers standard administrative tasks, such as personnel, travel, communications, utilities, supplies and furniture, and security. In addition, this budget is used for several program activities, including public information, civil emergency planning, and the work of the science committee.

The civil budget also has funded the non-military aspects of structures related to enlargement, including the Partnership for Peace (PfP) program and the Euro-Atlantic Partnership Council (EAPC).³ The civilian side of these bodies sponsors activities intended to strengthen European security through creating stronger political and economic systems in former-communist countries. In addition, the civil budget funds activities related to the Mediterranean Dialogue, the NATO-Russia Founding Act, the NATO-Ukraine Charter, as well as relations with the European Union.

NATO's civil budget is financed by all member states, usually through their ministries of foreign affairs. The U.S. contribution is provided through the State Department's budget (Contributions to International Organizations). The U.S. assessment was 21.81; for FY2008, the Administration requested a total of \$59.0 million.⁴

NATO Military Budget

NATO's military budget is, in most years, the largest of the three accounts. More than half of this fund is used to pay for operational and maintenance costs of the international military staff, its headquarters in Mons, Belgium and subordinate commands in different NATO geographical areas. This budget also covers the cost of administering the alliance's military-related activities and organizations, including International military headquarters, the Airborne Early Warning and Control System (AWACS) fleet operations, which accounts for a significant portion of the U.S. share; the NATO pipeline (referred to as the Central European Operating Agency); and the Maintenance and Supply Agency.

² *NATO Handbook*. NATO Public Diplomacy Division. Brussels. 2006. p. 59.

³ Created at the initiative of the United States in January 1994, PfP is intended to promote and develop concrete aspects of security cooperation in Europe, as well as to help interested countries prepare for NATO membership. In 1991, the North Atlantic Cooperation Council was established to permit political consultation on security matters between NATO and former Warsaw Pact countries; it was changed and renamed — the EAPC — in May 1997.

⁴ U.S. Department of State. *Congressional Budget Justification. Fiscal Year 2008* (Contributions to International Organizations). Washington, D.C. p. 739.

The level of the military budget is reviewed and approved annually by the North Atlantic Council. Individual member state contributions to the budget are based on a cost-sharing formula. Expenses for the various activities funded by the Military Budget may be split among 25 or 26 members, because France does not participate in all military activities. The U.S. contribution to NATO's military budget is provided through the Department of the Army's Operations and Maintenance account (Support for Other Nations). The U.S. share ranges from 22.5% (with all 26 members participating) to 26.7%; U.S. contributions to the AWACS program is 40.0%. The Administration requested \$362 million in its FY2008 budget.⁵

NATO Security Investment Program

Formerly known as the NATO Infrastructure Fund, this program in the past was responsible chiefly for funding military installations and construction projects. In May 1993, the functions of the program were changed significantly to reflect the alliance's new security policy. Known since December 1994 as the NATO Security Investment Program (NSIP), the fund's activities have been steered away from a static defense posture, appropriate during the Cold War, toward crisis control, anti-terrorism and other tasks, which require more rapid force mobility and flexibility.

Accordingly, the NSIP budget now involves the collective financing of a wide variety of NATO support functions, including, for example: command, control, communications and information hardware and software; logistics activities; harbors and airfields; training installations; transportation; and storage facilities for equipment, fuel, and munitions. Its work is managed by the NATO Infrastructure Committee, and individual projects are implemented by host countries or NATO agencies or commands.

Because NSIP projects may be located in any of the member countries, this program has tended to be somewhat more politically sensitive than the other two. Infrastructure and other NSIP projects are decided upon through a priority planning process. Specific projects are generally awarded on the basis of competitive bidding, and, once completed, undergo NATO-controlled inspection and auditing.

According to the U.S. Department of Defense (DOD), the focus on new NATO missions and the resultant redirection of NSIP activities have been relatively advantageous for the United States. Among other benefits, a change made in May 1993 to the "program's funding criteria for facilities construction and restoration all but eliminates NATO facility funding for the European allies but continues full support for U.S. requirements at European bases."⁶ NSIP also helps fund U.S. storage facilities in Europe, as well as U.S.-based facilities for American

⁵ U.S. Department of Defense. Department of the Army. *Fiscal Year (FY) 2008/2009 Budget Estimates. Operations and Maintenance, Army. Justification Book.* Vol. I. February, 2007.

⁶ U.S. Department of Defense. Military Construction Program. FY2008/2009 Budget. *North Atlantic Treaty Organization Security Investment Program.* Justification Data Submitted to Congress. Washington, D.C. February, 2007. p. 3.

reinforcement forces assigned to NATO. DOD has noted that the United States has benefitted from NATO infrastructure support for several military operations, including the 1986 air strike on Libya, Desert Storm, Provide Comfort, Deny Flight, peacekeeping activities in the Balkans, as well as military operations in Afghanistan and training in Iraq. Finally, the Pentagon notes that U.S. companies have been successful in bidding on NSIP contracts.

In the 1990s, NSIP funding shortfalls were an issue. According to DOD, Congress had “substantially reduced the Department’s budget request ... [and] a large number of U.S.-unique projects could not be considered for NATO funding.” Pentagon officials state that in the post-9/11 defense budget environment, this has ceased to be a problem. DOD has complained, however, about a prohibition — in place since 2000 — on spending NSIP funds on NATO Partnership for Peace projects in countries that formerly belonged to the Soviet Union. The ban, DOD argues, “continues to have considerable negative political consequences” for U.S. regional objectives, such as the introduction of democratic institutions and free markets.⁷

Like the NATO military budget, funding of NSIP projects is divided among 25 or 26 member states, depending upon French participation. In 2007, the U.S. share was 22-25%, which represented a slight decrease that resulted from the accession of new member states as well as from increased French contributions.⁸ The United States provides funds to NSIP through the military construction appropriations. The U.S. funding requirement for FY2008 was \$207.4 million; however because of \$6 million in recoupments from earlier years for projects funded by the United States, the Administration requested an appropriation of \$201.4 million.⁹

Common Funds Burdensharing Issues

The majority of NATO-related expenses incurred by member states arises from the deployment of their own armed forces. For this reason, the burdensharing debate in the United States has tended to focus not so much on NATO’s common funds, but rather on the extent to which established allies have been restructuring their forces and acquiring new military capabilities that enable them to respond to both NATO’s traditional Article V, as well as its new, non-Article V missions — particularly Afghanistan — and on the ability and willingness of the newer members to modernize their militaries, make them interoperable with alliance standards, and develop niche capabilities.¹⁰

⁷ Ibid.

⁸ See, for example, United States General Accounting Office. *NATO Infrastructure Program: As Threat Declines, NATO Reduces Expenditures*. GAO/NSIAD-92-174. Washington, D.C. May 1, 1992.

⁹ Military Construction Program FY2008/2009 Budget. p. 7.

¹⁰ See, for example, CRS Report RS21659, *NATO’s Prague Capabilities Commitments*, by Carl Ek; and CRS Report RS21864, *The NATO Summit at Istanbul*, by Paul E. Gallis.

As noted above, the three NATO common accounts are funded by contributions from the member states. How have these national shares determined in the past? The 2001 *NATO Handbook* noted that

[b]y convention, the agreed cost-sharing formulae which determine each member country's contributions are deemed to represent each country's "ability to pay". However the basis for the formulae applied is as much political as it is economic.¹¹

In May 1998, the U.S. Government Accountability Office (GAO), responding to a congressional request, issued a report on the history and apportionment of NATO common funds shares.¹² According to GAO, NATO cost shares have not been reviewed regularly, but have been changed in response to requests from individual member states, or to major events, such as changes in membership. Like all NATO decisions, burdensharing arrangements are based upon members' consensus.

NATO has revised relative member contributions based on "event-driven" changes. The GAO cited the following: (1) the 1966 French withdrawal from the military command, described below; (2) the admission of Spain in 1982 and the more recent enlargements in 1999 and 2004, for which shares were renegotiated among all members; and (3) Canada's 1994 unilateral 50% reduction of its NSIP contribution, for which several European member countries agreed to defray the cost among themselves.

In addition to changes caused by specific events, the alliance has periodically subjected shares to comprehensive reviews. In the early years of NATO, the alliance agreed to split up members' shares by grouping countries according to their economic strength, and then assigned members within the different groups identical shares, referencing those countries' contributions to the United Nations. In 1952, the three largest member states (the United States, the United Kingdom [U.K.], and France) each paid 22.5% of the budget, while the other countries were assessed according to their ability to pay (i.e., their relative GDP). In 1955, NATO determined that each country's future contribution would be based on its average past expenditures for the civil and military budgets, and also agreed not to continue to review cost shares annually. Since then, relative shares of the civil account have remained unchanged.¹³

The military account was revisited in 1965, when the U. K. requested a review of that budget to take into account changed relative economic conditions among member states. The following year, France withdrew from the NATO military structure, and reduced its contributions (since made on a unilateral, *ad hoc* basis); this change was accommodated by prorating shares among the other members. The

¹¹ North Atlantic Treaty Organization. NATO Office of Information and Press. *NATO Handbook*. Brussels, Belgium. 2001. p. 204.

¹² U.S. General Accounting Office. *NATO: History of Common Budget Cost Shares*. GAO/NSIAD-98-172. May, 1998.

¹³ When Spain joined in 1982, its share was negotiated, and the other members' shares were prorated accordingly. Shares were similarly reapportioned after the 1999 and 2004 enlargements.

net effect of both the British-requested review and the partial French pullout was a small redistribution of shares of the military budget.

Shares of the NSIP account have been examined somewhat more frequently. The changes have been made through negotiations, but the complete rationales behind the share revisions have not been made public. According to GAO, the alliance has sought to achieve an equitable distribution of NSIP cost shares by considering several factors: (1) members' capacity to pay; (2) benefits of *use* of NSIP projects that accrue to individual members; (3) economic benefits of *construction* of NSIP projects in member countries; (4) non-infrastructural security contributions made by individual countries; and (5) "various political and economic factors."¹⁴ In addition, the alliance reportedly takes into account the scope and sophistication of member nations' defense industries. These criteria are not, of course, fully quantifiable; NATO has sought to develop such hard-and-fast, objective guidelines, but has been unable to achieve consensus. Therefore, GAO concluded, "the setting of cost shares is essentially accomplished through negotiations." NSIP cost shares were last reviewed and revised in 1990. However, in early 2004 the alliance's European members agreed to standardize the percentages that each participating nation contributes to the military budget and NSIP.

When burdensharing contributions are negotiated, the alliance reportedly has taken into consideration the United States' worldwide security responsibilities. For example, the 2003 U.S. contribution to the NSIP budget was 23.8% — not too far above Germany's 19.8%. But that same year, U.S. GDP was \$10.3 trillion, while the combined GDP of the other 18 NATO allies was \$8.9 trillion. If NATO common funds assessments were based *solely* on GDP, the U.S. share that year would have been 53.6% and Germany's would have been 9.8%.¹⁵

In addition, policy analysts long have argued that alliances save money. The 2001 *NATO Handbook*, for example, noted that "to arrive at a meaningful conclusion" on the cost of belonging to the alliance, "each member country would have to factor into the calculation the costs which it would have incurred, over time, in making provision for its national security independently or through alternative forms of international cooperation."¹⁶

Nonetheless, the total size and individual shares of the common funds have been the subject of discussion in recent years. Prior to the 1999 enlargement, analysts estimated the cost of adding new members at between \$10 billion and \$125 billion,

¹⁴ Although the GAO report does not describe these factors, a 1990 Cato Institute report identifies several likely variables, including "numbers of active-duty, reinforcement, and reserve military personnel and amounts and types of equipment and weapons systems each member-state contributes, [and] ... such less quantifiable factors as the member-state's geographic proximity to the likely points of engagement..." See *NATO in the 1990s: Burden Shedding Replaces Burden Sharing*. By Rosemary Fiscarelli. Foreign Policy Briefing. CATO Institute. June 26, 1990. p. 2.

¹⁵ Data are from the website of the Organization for Economic Cooperation and Development (OECD).

¹⁶ p. 202.

depending upon different threat scenarios and accounting techniques. Some Members of Congress expressed concern over these cost projections and were also worried that the United States might be left to shoulder a large share of the expenditures; they questioned whether existing burdensharing arrangements should continue and suggested that the European allies should be encouraged to assume a larger financial share for the security of the continent. However, a NATO study estimated that enlargement would require only \$1.5 billion in common funds expenditures over 10 years, and DOD concurred. It was further forecast that the 2004 round of enlargement would cost a similar amount, “with greater benefits” to U.S. security. In addition, the addition of ten new contributors to the NATO common funds actually *reduced* the percentage shares of the established members—including the United States.¹⁷

In mid-2005, after reviewing existing burdensharing arrangements, NATO’s Senior Resource Board recommended a new formula that seeks to be “fair, equitable, stable, and objectively based, ... [with] an automatic mechanism for regular updates.”¹⁸ The new formula excludes from its calculations the United States, which negotiated a ceiling for its cost share percentages at the existing rate. The allies also agreed that if new members join the alliance, U.S. contributions would decline on a pro rata basis.

The new pro rata apportionment will apply to cost shares after the limited U.S. share has been subtracted. The military and NSIP budgets will be similarly adjusted to account for French non-participation. The formula will be based on gross national income (GNI) data, representing an average of figures using current prices and data measuring purchasing power parity, both taken from the World Bank’s *World Development Indicators*. The formula will use a two-year rolling average of each country’s GNI to smooth out annual fluctuations. The revised cost share plan will be gradually introduced over a 10-year transition period, beginning in January 2006.

After additional review, NATO staff recommended in mid-2006 that future burdensharing arrangements take into account several other factors besides GNI, including nationally provided staffing for critical NATO operational activities, NATO Airborne Early Warning, benefits from NSIP and other projects, and NATO staffing levels. It was recommended that NATO biennially review each nation’s contributions to specified NATO operations over the previous four years and adjust the final share according to those contributions.

¹⁷ CRS Report 97-668, *NATO Expansion: Cost Issues*, by Carl Ek, February 26, 1998. U.S. Department of Defense, *Report to the Congress on the Military Requirements and Costs of NATO Enlargement*. Washington, D.C. February 1998. U.S. Congressional Budget Office. *NATO Burdensharing After Enlargement*. Washington, D.C. August 2001. U.S. Department of State. Bureau of European and Eurasian Affairs. *Fact Sheet: The Enlargement of NATO*. Washington, D.C. January 31, 2003.

¹⁸ NATO Common Funding. New Cost Share Arrangements For Civil Budget, Military Budget and NATO Security Investment Program and Review of Burden Sharing Arrangements. NATO Senior Resource Board. Memorandum. July 22, 2005.

The second session of the 110th Congress will likely review the new burdensharing arrangements — as well as U.S. contributions to the NATO budgets — in the context of the Defense Department and State Department appropriations.

Table 1. NATO Common Budgets Contributions and Cost Shares, 2005

(expressed in percent, with all 26 members contributing)

Member State	Civil Budget	Military Budget	NSIP
Belgium	2.4947	2.8855	2.8855
Bulgaria	0.3400	0.3400	0.3400
Canada	5.6000	4.5000	4.5000
Czech Republic	0.8870	0.8870	0.8870
Denmark	1.3682	2.0112	2.0112
Estonia	0.1070	0.1070	0.1070
France	13.7505	12.8693	12.8693
Germany	15.5075	17.3186	17.3186
Greece	0.5000	0.5000	1.0500
Hungary	0.6500	0.6500	0.6500
Iceland	0.0550	0.0475	0.0000
Italy	6.5000	7.3500	7.6645
Latvia	0.1371	0.1371	0.1371
Lithuania	0.2068	0.2068	0.2068
Luxembourg	0.1000	0.1500	0.1500
Netherlands	3.0000	3.4427	3.4427
Norway	1.2000	1.7260	1.7260
Poland	2.4449	2.4449	2.4449
Portugal	0.7000	0.5500	0.5500
Romania	1.0934	1.0934	1.0934
Slovakia	0.4466	0.4466	0.4466
Slovenia	0.2551	0.2551	0.2551
Spain	4.0000	3.9000	3.9000
Turkey	1.8000	1.5000	1.5000
United Kingdom	15.0462	12.1385	12.1385
United States	21.8100	22.5428	21.7258
Total	100.0000	100.0000	100.0000

Source: U.S. Department of Defense.